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CIA/RR CB 65-65  
October 1965

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## INTELLIGENCE BRIEF

INDONESIAN REQUIREMENTS  
FOR SHORT-TERM ECONOMIC ASSISTANCE

DIRECTORATE OF INTELLIGENCE  
Office of Research and Reports

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S-E-C-R-E-T

INDONESIAN REQUIREMENTS  
FOR SHORT-TERM ECONOMIC ASSISTANCE

The changes in the political balance of power following the 30 September coup in Indonesia do not alter the country's economic problems, but they may offer opportunities for renewed economic assistance from the West. The shifting fortunes of the Army and the PKI are not expected to change either the intense nationalism of the government or Sukarno's presentation of the United States as a symbol of NECOLIM (neo-colonialists, colonialists, imperialists). Thus the emerging Indonesian government probably will not find it expedient to effect an abrupt change in its posture toward the United States. It may be possible, however, for the United States to provide assistance\* indirectly and to influence the assistance provided by other nations. This assistance could be directed at maintaining and improving living conditions in order to mitigate developing discontent, especially in urban areas, which could undermine government stability. In addition, spare parts and repair facilities for trucks and for the inter-island merchant fleet; rice, cotton, coal, kerosine, and lubricating oils; and road construction aid would all be of short-run assistance.

1. Spare Parts and Technical Assistance for Transportation

Economic assistance in the form of spare parts and technical assistance for the Indonesian transportation system would improve domestic distribution facilities and thus insure a more efficient use of available resources. Although there have been recent imports of trucks and rolling stock from the US, West Germany, Japan, Yugoslavia, Rumania, Czechoslovakia, and East Germany, the existing vehicle stock has been so badly maintained that investments in repair facilities and spare parts would have been more productive. The road system is badly in need of repair, and trucks and buses are operating at less than 50 percent of capacity.

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\* The US aid program to Indonesia was terminated in mid-FY 1965. During FY 1965, \$3.8 million in existing economic aid grants and loans was withdrawn. The PL-480 program amounted to \$5.7 million in grants shipped under Title II and Title III. These shipments included dry milk, bulgar wheat, corn, and fats and oils. Military assistance, primarily training, totaled \$5.0 million. No new aid was extended for FY 1966 but some programs -- educational exchanges and a harbor rehabilitation contract -- are continuing with funds still in the pipeline.

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The Minister of Sea Communications estimates that almost 60 percent of the Indonesian merchant fleet is idle, because of a lack of spare parts, port congestion, and the low operating efficiency of ports. The air transport system, on the other hand, is relatively efficient. Moreover, certain forms of aid to the air transport system (for example, meeting Indonesia's request for C-130 spares) would have the disadvantage of supporting the confrontation policy against Malaysia. Assistance could be provided to certain other elements of the Indonesian transport system, however, without giving material aid to confrontation.

US equipment was introduced into Indonesia to rehabilitate the transportation system following the Japanese occupation, and thus spare parts for US-manufactured equipment could be used. Western technicians could also direct repair work on roads and rail facilities to make the transport system more efficient.

## 2. Rice

A severe rice shortage in Indonesia would create serious political problems for any new government. The seasonal shortage that usually occurs between December and March did not materialize in 1964, because rice imports were available for immediate distribution to rice-deficit areas. This year, however, imports were sharply cut back in line with Sukarno's August 1964 edict that Indonesia import no more rice. During 1965, Indonesia imported only 150,000 metric tons (mt), compared with annual imports of more than a million tons during recent years. As a result of a record rice harvest of 10.4 million mt this year, Indonesia should have sufficient rice available if it were not for internal distribution problems, which are likely to create localized shortages. The difficulties posed by malfunctioning of the distribution system have been highlighted during the recent political upheaval. Between 30 September and 6 October the price of rice in Medan rose by more than 100 percent. Localized shortages could be eased by US rice shipments.\* Some rice could probably be procured from Thailand, but most other countries that

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\* The US government maintains no stockpiles of rice, and most domestic production is sold commercially. Most surplus rice is now shipped to Vietnam, and Indonesia would have to take precedence over Vietnam to obtain rice under PL-480 programs. Vietnam has commitments for 150,000 to 200,000 mt for calendar year 1965, and for 1966 the commitment may reach as high as 400,000 mt.

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are traditionally major sources of Indonesia's rice imports have no surplus stocks available at the present time. Although other food-stuffs could be shipped, substitute grains are considered inferior to rice, for which the Indonesians have a marked preference.

3. Petroleum

Although Indonesia produces and refines a large volume of petroleum, there is a perennial shortfall problem, requiring Indonesia to import various petroleum products. Kerosine, an important consumers' good used for heating, cooking, and illumination, has been in chronic short supply. While it is doubtful if kerosine is imported to meet consumer demands, additional supplies could be utilized if available. Indonesia is dependent on imports for much of its supply of lubricating oils. Other shortages of petroleum products are likely to develop now that the Indonesian government has taken over the internal distribution and marketing of all petroleum products. A recent report noted that the Kemajoran Airport at Djarkarta was without jet fuel for three days because of internal distribution problems.

4. Cotton and Spare Parts for Textile Machinery

Indonesia could also use raw cotton and spare parts to rehabilitate its textile production facilities and thus reduce its need to import textiles. Domestic spinning capacity has increased during the past two years, but actual production has declined.

5. Coal

The government-owned railroad has been beset by coal shortages, created in part by the declining output of Indonesia's coal mines and in part by the inefficiency of local transportation facilities. The railroad company estimates its monthly requirements at 35,000 mt whereas the coal board will provide only 25,000 mt. This shortage is likely to reduce the operating efficiency of the railroad, still further aggravating distribution problems.

Analyst:

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Coord:

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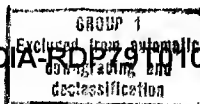
Attn: Mr H Kent Goodspeed

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1 Attachment  
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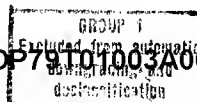
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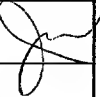
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1. Information supplied by Indonesian Desk -- AID (Incl)
2. Djakarta, Foreign Agriculture Service, AGR - 2, 8 July 1965, Unclassified.
3. Djakarta, Foreign Agriculture Service, AGR - 2, 8 July 1965, Unclassified.
4. Djakarta, #877 Incoming Telegram, 6 October 1965, SECRET.
5. Djakarta, A-179, 4 September 1965, CONFIDENTIAL.
6. Djakarta, A-179, 4 September 1965, CONFIDENTIAL.